

Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 EA-06 ISO-00 FEA-01 TAR-01 ERDA-05

AID-05 CEA-01 CIAE-00 CIEP-01 COME-00 DODE-00 FPC-01

H-01 INR-07 INT-05 L-02 NSAE-00 NSC-05 OMB-01 PM-03

SAM-01 OES-03 SP-02 SS-15 STR-01 TRSE-00 FRB-03 /090 W

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FM AMEMBASSY BONN

TO SECSTATE WASHDC 8279

INFO AMEMBASSY LONDON

AMEMBASSY ROME

AMEMBASSY BRUSSELS

AMEMBASSY THE HAGUE

AMEMBASSY LUXEMBOURG

AMEMBASSY DUBLIN

AMEMBASSY COPENHAGEN

AMEMBASSY TOKYO

AMEMBASSY OTTAWA

AMEMBASSY OSLO

AMEMBASSY BERN

AMEMBASSY STOCKHOLM

AMEMBASSY VIENNA

AMEMBASSY MADRID

AMEMBASSY ANKARA

AMEMBASSY WELLINGTON

USMISSION EC BRUSSELS

USMISSION OECD PARIS

C O N F I D E N T I A L BONN 03251

E.O. 11652: GDS

TAGS: ENRG, GW

SUBJECT: GERMAN GOVERNMENT VIEWS ON IEA FLOOR PRICE
PROPOSAL

REF: STATE 041767

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1. ACCORDING TO ECONOMICS MINISTRY SOURCES, THE GERMAN GOVERNMENT IS NOW PREPARED TO ACCEPT THE CONCEPT OF AN IEA FLOOR PRICE IN PRINCIPLE. THE FRG ATTACHES A NUMBER OF SPECIFIC CONDITIONS TO THE IMPLEMENTATION OF THIS PRINCIPLE, HOWEVER.

2. FIRST AND FOREMOST, THE GOVERNMENT INSISTS THAT THE FLOOR PRICE NOT BE TOO HIGH. CURRENT THINKING IS A PRICE OF AROUND \$5-6 PER BARREL. A PRICE AT THIS LEVEL, THE GERMANS ARGUE, WOULD PROTECT THE BULK OF READILY AVAILABLE ALTERNATIVE ENERGY SOURCES I.E. NUCLEAR ENERGY AND NORTH SEA OIL. HIGHER COST ALTERNATIVES COULD BE ASSISTED ON A PROJECT BY PROJECT BASIS AS THE NEED ARISES AND IS DEMONSTRATED. BY THIS APPROACH, THE FRG HOPES TO ISOLATE HIGH COST ENERGY TO A FEW SPECIFIC PROJECTS AND PROTECT THE ECONOMY FROM THE EFFECTS OF AN \$8-9 FLOOR FOR ALL ENERGY SOURCES. OUR CONTACTS STATE THAT THE FINANCE MINISTRY IS FIRMLY OPPOSED TO A HIGH FLOOR PRICE.

3. RELATED TO THE DEMAND FOR A RELATIVELY LOW FLOOR PRICE, IS THE GERMAN INSISTENCE THAT THE FLOOR PRICE BE CLEARLY SEPARATED FROM WHATEVER EQUITY PRICE IS EVENTUALLY NEGOTIATED BETWEEN THE PRODUCERS AND THE CONSUMERS. THE GERMANS SEE THE FLOOR PRICE AS NECESSARY TO PROTECT ALTERNATIVE SOURCES OF ENERGY. THEY ARE CONVINCED THAT THE PRODUCERS WILL NEVER AGREE TO AN EQUITY PRICE AT THE \$5-6 LEVEL, HOWEVER AND THEY REJECT THE IDEA OF A COMBINED FLOOR AND EQUITY PRICE AT THE \$8-9 LEVEL.

4. ECONOMICS MINISTER FRIDERICH'S DEALT WITH THESE POINTS DURING A BUNDESTAG DEBATE ON FEBRUARY 20 AS HE STATED "THE WORST THING THAT COULD HAPPEN TO US WOULD BE A HIGH FLOOR PRICE -- I HAVE JUST MENTIONED WHAT IT MIGHT BE (\$9) -- AND IF THE PRODUCER COUNTRIES WOULD THEN SAY: WE WILL MEET YOU HALF-WAY, WE WILL NOW DECREASE THE PRICE FROM \$10.50 PER BARREL TO, LET'S SAY, \$9 AND THEN WE'LL INDEX. IN
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VIEW OF THE RATE OF OUR PRICE INCREASES AND THOSE OF OTHERS, AN INDEXATION OF THE OIL PRICE WOULD BE A BUILT-IN EXTERNAL INFLATIONARY MOTOR FOR OUR OWN NATIONAL ECONOMY."

5. THE FRG WOULD LIKE TO GO SLOWLY IN DEVELOPING AND COORDINATING THE SPECIFIC INSTRUMENTS FOR IMPLEMENTING THE FLOOR PRICE IN INDIVIDUAL COUNTRIES. FURTHER,

THEY FEEL THAT COOPERATION ON THE DEVELOPMENT OF PROJECTS RELATING TO ALTERNATIVE SOURCES OF ENERGY SHOULD INVOLVE SOME LOW COST PROJECTS AS WELL AS HIGH COST ONES.

6. THE ECONOMICS MINISTRY EXPECTS TO SUBMIT A FLOOR PRICE PROPOSAL TO THE CABINET FOR APPROVAL AT ITS MEETING ON MARCH 5. OUR SOURCES EXPECT CABINET APPROVAL OF THE FLOOR PRICE IN PRINCIPLE AND A MANDATE TO NEGOTIATE THE LEVEL IN THE \$5-6 PER BARREL RANGE.

HILLENBRAND

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